By far, the most widely used mechanism is direct borrowing. Most energy improvements for existing homes can be financed through consumer loans, a home equity loan secured by property, or by traditional or specialized mortgages. Although not widely available, energy improvement mortgages (EIM) allow the homeowner to fold the costs of energy improvements into the mortgage. By contrast, energy-efficient mortgages (EEM) allow lenders to have flexibility in the debt-to-income ratio and other underwriting considerations so that borrowers can qualify for larger loans or obtain a lower interest rate. Both these specialized programs are relatively small because of the transactional complexity and lack of information (USEPA 2010). Furthermore, very few lenders currently offer them, except for Federal Housing Administration and Veterans Administration mortgages. For example, there are only three such lenders for the state of Texas and two in Arizona, the two states with the largest number of new Energy Star residences in 2011.[8]

The above programs and financing options have grown and show promise, but at less than $6 billion in aggregate are far below the need. Of all these mechanisms, EEMs and EIMs have the greatest potential to encourage energy efficiency because they rely on the mainstream financial system. Their limited availability and appeal may be due in large part to the uncertainty and lack of information about their inherent risks. If, indeed, mortgages on energy-efficient homes have lower risks than those on less-efficient homes, a lower pricing or more flexible underwriting standard is likely to result in an increased demand for these products. In addition, with more accurate information on risks, lenders may be able to develop and tailor these mortgage products more effectively.

[8] http://www.energystar.gov/index.cfm?fuseaction=new_homes_partners.locator (Accessed January 13, 2012).